



July 6, 2007

Ms. Karen J. Nickerson, Secretary
Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, Delaware 19904

PSC DOCKET

07-186

RECEIVED
07 JUL -6 AM 10:31
DELAWARE P.S.C.
\$100.00
cc. 07/6/07
#628/68675
COC

Re: Delaware Division of Chesapeake Utilities Corporation Rate Increase Application

Dear Ms. Nickerson:

Pursuant to Sections 201 and 304 of Title 26 of the Delaware Code, enclosed herewith for filing are an original and ten copies of the application of Chesapeake Utilities Corporation ("Chesapeake" or the "Company") for a general increase in its natural gas rates and services and for certain other changes to its natural gas tariff. The Company's filing consists of three volumes. The first volume (Notebook 1 of 3) contains the Company's application, briefing sheet, proposed natural gas tariff, and the Minimum Filing Requirements. The second volume (Notebook 2 of 3) contains the pre-filed testimony and attachments of the Company's witnesses. The third volume (Notebook 3 of 3) also contains the pre-filed testimony and attachments of the Company's witnesses. Included in the application are the proposed delivery service rates and rate design that would achieve the requested annual revenue. Also included in the application are delivery service rates which the Company is seeking to put into effect on an interim basis under bond in the event the Delaware Public Service Commission suspends the full proposed increase in rates and change in rate design.

As indicated in the Company's Notice of Intent to the Delaware Public Service Commission dated May 16, 2007, the general rate increase application support data is based upon a test year comprised of the twelve months ended December 31, 2006 and a test period consisting of the twelve months ending March 31, 2007.

Also, enclosed is the Delaware Public Service Commission's "Filing Cover Sheet" along with the application fee of \$100. Should you have any questions with regard to this filing, please contact me at 302.736.7818.

Sincerely,

Jennifer A. Clausius
Manager of Pricing and Regulation

Enclosures

Cc: William A. Denman, Esquire
G. Arthur Padmore Chesapeake Utilities Corporation

Docket No. _____
Filing Date: _____
Reviewer: _____
Given to: _____

1. NAME OF APPLICANT: Chesapeake Utilities Corporation

- IF A TELECOMMUNICATIONS FILING, WHAT TYPE OF SERVICE IS IMPACTED?
(PLEASE CHECK)

BASIC **COMPETITIVE**_____ **DISCRETIONARY**

3. PROPOSED EFFECTIVE DATE: September 4, 2007

IS EXPEDITED TREATMENT REQUESTED? YES ___ NO X

4. **SHORT SYNOPSIS OF FILING:** Chesapeake Utilities Corporation proposes a general increase in its natural gas rates and services and approval of certain other changes to its natural gas tariff.

5. DOES THIS FILING RELATE TO PENDING DOCKETS? YES__ NO X

IF SO, PLEASE LIST DOCKET(S) NO(S):

6. IS PUBLIC NOTICE REQUIRED? YES X NO
IF YES, PLEASE ATTACH COPY OF PROPOSED PUBLIC NOTICE.

- | | | |
|--------------------------------|-------------|-----------------------------------|
| 7. APPLICANT'S CONTACT PERSON: | (NAME) | Jennifer A. Clausius |
| | (TITLE) | Manager of Pricing and Regulation |
| | (TELE. NO.) | 302.736.7818 |
| | (FAX NO.) | 302.734.6011 |

8. DID YOU PROVIDE A COMPLETE COPY OF THE FILING TO THE PUBLIC ADVOCATE?

YES ☒ NO ☐ IF SO, WHEN? July 6, 2007

9. FILING FEE ENCLOSED: \$100.00
(AMOUNT)

NOTE: House Bill 681, enacted into law 7/13/98, authorizes the Commission to recover the cost of time spent by in-house staff to process all filings initiated after the date of enactment. You may be required to reimburse the Commission for staff time.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION)
FOR A GENERAL INCREASE IN ITS) P.S.C. DOCKET NO. 07-
NATURAL GAS RATES AND SERVICES)
AND FOR APPROVAL OF CERTAIN OTHER)
CHANGES TO ITS NATURAL GAS TARIFF)

CERTIFICATE OF SERVICE


I, Jennifer A. Clausius, do hereby certify that on July 6, 2007, a copy of Chesapeake Utilities Corporation – Delaware Division's application for a general increase in its natural gas rates and services and for approval of certain other changes to its natural gas tariff was issued to the following persons in the manner indicated:

VIA HAND DELIVERY

WILLIAM A. DENMAN, ESQUIRE
PARKOWSKI, GUERKE AND SWAYZE P.A.
116 WEST WATER STREET
P. O. BOX 598
DOVER, DELAWARE 19903

VIA OVERNIGHT DELIVERY

G. ARTHUR PADMORE, PUBLIC ADVOCATE
DIVISION OF THE PUBLIC ADVOCATE
820 N. FRENCH STREET, 4TH FLOOR
WILMINGTON, DE 19801


Jennifer A. Clausius
Manager of Pricing and Regulation

**BEFORE THE PUBLIC SERVICE COMMISSION OF THE
STATE OF DELAWARE**

**IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION)
FOR A GENERAL INCREASE IN ITS)
NATURAL GAS RATES AND SERVICES)
AND FOR APPROVAL OF CERTAIN OTHER)
CHANGES TO ITS NATURAL GAS TARIFF)
(FILED JULY 6, 2007))**

P.S.C. DOCKET NO. 07-

PUBLIC NOTICE

**TO: ALL CUSTOMERS OF THE DELAWARE DIVISION OF CHESAPEAKE
UTILITIES CORPORATION**

On July 6, 2007, the Delaware Division of Chesapeake Utilities Corporation ("Chesapeake") filed with the Delaware Public Service Commission an application for an increase in natural gas rates and other proposed changes to its currently effective tariff. The new rates are proposed to be effective with service rendered on and after September 4, 2007, and are designed to produce an annual increase of approximately \$1,895,668 or 3.25% of existing revenues based on a test period ending March 31, 2007. The full proposed rates would increase the bill of the average residential natural gas heating customer using 120 Ccf (hundred cubic feet) during a winter month by approximately \$9.47 per month, and by \$1.11 per month for the average non-heating gas customer using 18 Ccf per month.

The Commission has suspended the proposed effective date of the proposed new rates; however, pursuant to 26 Del. C. §306(c), Chesapeake has placed interim rates into effect, subject to refund. The interim rates would increase the bill of the

average residential natural gas heating customer using 120 Ccf during a winter month by approximately \$6.04 per month, and by \$2.74 per month for the average non-heating gas customer using 18 Ccf per month.

Chesapeake has also filed for approval of several new service offerings for its customers including an aggregated transportation program allowing all commercial and industrial customers to choose to purchase natural gas from a third-party supplier as opposed to through Chesapeake's Gas Sales Service Rate mechanism. Chesapeake is also proposing to change its rate structure by increasing its residential rate schedules from a single rate schedule to three volumetric classes and by increasing its commercial and industrial rate structure from four rate schedules to seven volumetric thresholds. Chesapeake is also proposing a separate rate rider applicable to current and potential residential customers located in eastern Sussex County, Delaware. Finally, Chesapeake is proposing a revenue normalization mechanism for all customers using less than 100,000 Ccf annually, along with several conservation and energy efficiency programs targeted for the residential sector in conjunction with the revenue normalization mechanism.

The Commission will make its decision on this matter based upon the evidence of record taken at public evidentiary hearings and a public comment session that will be conducted upon later public notice.

Any person or group who wishes to formally participate as a party to this Docket (PSC Docket No. 07-____), must, in accordance with Rule 21 of the Commission's Rules of Practice and Procedure, petition the Commission for and be granted leave to intervene in the proceedings in this docket. To be timely, all such petitions must be

filed with the Delaware Public Service Commission at 861 Silver Lake Boulevard, Cannon Building, Suite 100, Dover, Delaware 19904 on or before _____, 2007. Petitions received thereafter will not be considered except for good cause shown.

All interested Chesapeake natural gas customers are urged and invited to review the Application and supporting materials to see how their individual rates and interests may be affected. Copies of the Chesapeake Application and the testimony and exhibits the Company filed are available for public inspection during normal business hours at the Commission's office located at the address set forth above.

Any individuals with disabilities, who wish to participate in these proceedings, or to review the Application, should contact the Commission to discuss any auxiliary aids or services needed to facilitate such review or participation. Such contact may be in person, by writing, telephonically, by use of the Telecommunications Relay Service, or otherwise. Persons with questions concerning this matter may contact the Commission at its toll-free number (for calls made within Delaware) (800) 282-8574, or by regular telephone at (302) 739-4247. Inquiries can also be sent by Internet e-mail to _____.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

IN THE MATTER OF THE APPLICATION OF)	
CHESAPEAKE UTILITIES CORPORATION)	
FOR A GENERAL INCREASE IN ITS)	P.S.C. DOCKET NO. 07-
NATURAL GAS RATES AND SERVICES)	
AND FOR APPROVAL OF CERTAIN OTHER)	
CHANGES TO ITS NATURAL GAS TARIFF)	

Chesapeake Utilities Corporation (hereinafter sometimes called "Chesapeake" or "Applicant") pursuant to Sections 201 and 304 of Title 26 of the Delaware Code makes the following application with the Public Service Commission of the State of Delaware ("Commission") for a general increase in its natural gas rates and services throughout its service territory in the State of Delaware, and for approval of certain other changes to its natural gas tariff.

1. Applicant is Chesapeake Utilities Corporation, a corporation in the State of Delaware duly authorized by its articles of incorporation to engage in the business of transporting, distributing and selling natural gas in the State of Delaware, through its Delaware Division. The Applicant's address is 909 Silver Lake Boulevard, Dover, Delaware 19904. All communications should be addressed to the Applicant at the following address, Attention: Jennifer A. Clausius, Manager of Pricing and Regulation, 350 South Queen Street, P.O. Box 1769, Dover, Delaware 19903 or at the following e-mail address: jclausius@chpk.com. The respective telephone and facsimile numbers are 302.736.7818 and 302.734.6011.

2. Counsel for the Applicant is William A. Denman, Esquire, Parkowski,

Guerke & Swayze, P.A., 116 West Water Street, P. O. Box 598, Dover, Delaware 19903. Correspondence and other communications concerning this application should be directed to counsel at the foregoing address, or at the following e-mail address: wdenman@pgslegal.com. The respective telephone and facsimile numbers are 302.678.3262 and 302.678.9415.

3. Chesapeake is a corporation incorporated under the laws of the State of Delaware. The voting stock of Chesapeake is publicly owned. Shares of common stock, 6,688,084 of which were outstanding as of December 31, 2006, are the only voting securities of Chesapeake.

4. Chesapeake is a Delaware public utility authorized to sell and distribute natural gas in portions of New Castle County and throughout Kent County and Sussex County, Delaware. Chesapeake, through its Delaware Division, serves approximately 33,500 natural gas customers in Delaware pursuant to rates heretofore approved by the Commission.

5. Applicant hereby applies to the Commission for permission to change certain natural gas rates, service offerings and other provisions of its tariff (P.S.C. Del. No. 4). Pursuant to the Commission's Minimum Filing Requirements, Applicant's Notice of Intent to file a general rate increase application was submitted to the Commission on January 31, 2007 and amended on March 30, 2007 and May 16, 2007. Applicant is filing a new natural gas tariff (P.S.C. Del. No. 5) along with this application that incorporates the proposed changes for base rates to be effective September 4, 2007.

6. The historic test year is the twelve-month period beginning January 1, 2006 and ending December 31, 2006. The test period is the twelve-month period

beginning April 1, 2006 and ending March 31, 2007. The full proposed rates represent an approximate \$1,895,668 increase over the natural gas customers' total current delivery service rates based on the test period billing statistics for the twelve-month period ending March 31, 2007.

7. Applicant increased its base rates effective August 1, 2006 and January 1, 2007 in order to reflect an increase in the PSC Assessment rate from \$0.002 to \$0.003 per dollar of revenue earned. Prior to these filings, the Commission approved a \$380,000 increase in base rates effective May 1, 2002, resulting from the Company's original application filed in PSC Docket No. 01-307 on August 2, 2001. The Commission approved a settlement agreement in Phase II of this proceeding on November 19, 2002.

8. The Applicant's rate of return on an adjusted rate base for the test period is 7.10% without rate relief. With the rate relief requested herein, the rate of return based on the adjusted rate base for the test period is 9.68%.

9. The purpose of the increase is to afford Applicant a reasonable opportunity to earn a fair return on its investment devoted to providing natural gas service in Delaware. At present, Applicant is not earning the rate of return approved by the Commission in the last natural gas base rate case, P.S.C. Docket No. 01-307, Phase I. The major reasons for the deterioration in Applicant's earnings and the need for the requested increase in rates is due to increases in the return requirement for gas utility plant investments, increases in certain fees and taxes other than income, as well as a significant decline in fixed margin contribution from the Company's various firm customer classes.

10. As more fully described in the proposed new tariff and pre-filed testimony submitted with this application, Applicant is also proposing to implement several

new service offerings and rate design changes including an aggregated transportation program allowing all commercial and industrial customers to choose a third-party marketer from whom to purchase natural gas supply. Applicant is also proposing several new rate classifications in order to achieve greater volumetric stratification among its firm customer classes. Applicant is proposing a revenue normalization mechanism for all customers with annual usage up to 100,000 Ccf as well as several new conservation and energy efficiency programs targeted for the residential sector in conjunction with the revenue normalization mechanism. Additionally, Applicant is proposing modifications to its main extension policy.

11. Applicant is also proposing an alternative rate design for areas located in eastern Sussex County, Delaware. The Governor's Task Force on the State's Energy Policy issued a final report to the Governor in September 2003. Strategy No. 5 of this report relates to enhancing the availability of natural gas with the specific recommendation that, "The state should evaluate possible incentives for expanding residential and commercial natural gas service." Chesapeake recognizes its responsibility, as the sole provider of natural gas service in lower Delaware, to serve such prospective customers. However, Chesapeake's current rate design is not likely to enable it to develop the required distribution infrastructure from which to serve the targeted growth zones in eastern Sussex County. Chesapeake's proposed alternative pricing design and structure will allow Chesapeake's distribution approach mains to be extended further than Chesapeake's proposed delivery service rates for current customers thereby providing more customers the option of choosing natural gas service as their energy choice in the targeted growth zones in eastern Sussex County. Applicant is also proposing that it not be required to reduce base rates in the future unless the actual return on equity, as reported by Applicant

on a quarterly basis, exceeds 15.00% in order to compensate Applicant for the additional risk of expanding its distribution system into eastern Sussex County, Delaware. Finally, Applicant's proposal includes a provision whereby it will purchase propane distribution systems at market price and include the cost in its Rate Base as well as capitalize the costs associated with converting customers to natural gas service.

12. With respect to the Applicant's rate design, Applicant is requesting that the Commission approve the full proposed rates based on its proposed rate design to be effective with service rendered on and after September 4, 2007. In the event the Commission suspends the proposed increase in base rates, as authorized by 26 Del. C. Sec. 306(c), effective with service rendered on and after September 4, 2007, the Company proposes to place into effect on a temporary basis and subject to refund, interim rates (based on Applicant's current rate schedules) designed to recover an approximate revenue increase of \$1,895,668. Under Section 306 of Title 26 of the Delaware Code, a public utility may put a rate into effect on a temporary basis provided that the increase does not constitute an increase in excess of 15 percent of the public utility's annual gross intrastate operating revenues or \$2,500,000 annually, whichever is less. The Company's requested annual base revenue increase of \$1,895,668 is less than 15 percent of the Company's annual gross intrastate operating revenues for the calendar year 2006. Applicant is submitting cost of service studies in support of its application along with certain rate design proposals concurrent with this filing.

13. In this proceeding, Applicant is seeking an overall 9.68% return on its rate base for the test period ending March 31, 2007. The proposed percentage increases in revenue from the various existing rate classifications under the proposed interim rates

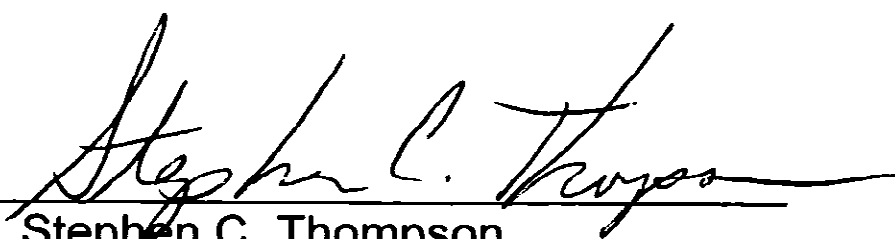
and full proposed rates are included as Exhibit A. An average residential heating customer using 120 Ccf's during a winter month will experience an increase of \$6.04 per month under the proposed interim rates and \$9.47 per month under the full proposed rates. An average residential non-heating customer using 18 Ccf's per month will experience an increase of \$2.74 per month under the proposed interim rates and \$1.11 per month under the full proposed rates.

14. Copies of Applicant's proposed rate schedules and revised tariff as well as the pre-filed testimony and Minimum Filing Requirements schedules are being filed simultaneously with the filing of this Application.


WHEREFORE, the Applicant prays as follows:

- A. That the Commission docket this Application and schedule it for hearing;
- B. That proper notice of the hearing be published;
- C. That the Commission authorize the Company to place the proposed interim rates into effect on a temporary basis and subject to refund for usage on and after September 4, 2007, as authorized by 26 Del C. Sec. 306(c);
- D. That the Commission approve the proposed rate schedules, tariff revisions, and various proposals as filed by the Applicant; and
- E. That, after hearing, the Commission approve the proposed rate increase, new service offerings, and the various proposals contained within this filing, and enter such other orders in connection with this Application as are deemed appropriate under the circumstances.

CHESAPEAKE UTILITIES CORPORATION

BY: 
Stephen C. Thompson
Senior Vice President

PARKOWSKI, GUERKE & SWAYZE P.A.

BY: 
William A. Denman, Esquire
116 West Water Street
Dover, DE 19903
Attorney for Applicant

DATED: July 6, 2007

**Chesapeake Utilities Corporation
Delaware Division
Application for an Increase in Base Rates
and Other Changes to the Tariff
PSC Docket No. 07-**

Impact of Proposed Interim Rates (Existing Rate Schedules)

<u>Schedule</u>	<u>Rate Classification</u>	<u>% Increase</u>
RS	Residential Service	3.61%
GS	General Service	3.44%
MVS	Medium Volume Service	2.24%
LVS	Large Volume Service	2.99%
HLFS	High Load Factor Service	1.87%
NGV	Natural Gas Vehicle Service	no change
GCR	Gas Cooling Service	no change
GCO	Gas Cooling Service	no change
GLR	Gas Lighting Service	5.12%
GLO	Gas Lighting Service	5.12%
NCR	Negotiated Contract Rate	0.21%
IS	Interruptible Service	flexible rate
SFS	Seasonal Firm Service	1.20%

**Chesapeake Utilities Corporation
Delaware Division
Application for an Increase in Base Rates
and Other Changes to the Tariff
PSC Docket No. 07-**

Impact of Full Proposed Rates (Proposed Rate Schedules)

<u>Schedule</u>	<u>Rate Classification</u>	<u>% Increase</u>
RS-1	Residential Service - 1	6.37%
RS-2	Residential Service - 2	3.02%
RS-3	Residential Service - 3	1.78%
RSES	Residential Service - Expansion Area Rider	new service
GS-1	General Sales Service - 1	8.78%
FTS-1	Firm Transportation Service - 1	28.38%
GS-2	General Sales Service - 2	4.83%
FTS-2	Firm Transportation Service - 2	25.54%
GS-3	General Sales Service - 3	3.16%
FTS-3	Firm Transportation Service - 3	25.69%
GS-4	General Sales Service - 4	1.23%
FTS-4	Firm Transportation Service - 4	16.12%
GS-5	General Sales Service - 5	0.57%
FTS-5	Firm Transportation Service - 5	0.39%
GS-6	General Sales Service - 6	1.06%
FTS-6	Firm Transportation Service - 6	25.85%
GS-7	General Sales Service - 7	0.00%
FTS-7	Firm Transportation Service - 7	9.71%
ITS	Interruptible Transportation Service	new service
GLR	Gas Lighting Service	3.78%
GLO	Gas Lighting Service	3.78%
SAS	Shipper Administrative Service	new service
SABS	Shipper Administrative and Billing Service	new service
NGV	Natural Gas Vehicle Service	0.00%
NCR	Negotiated Contract Rate	19.70%

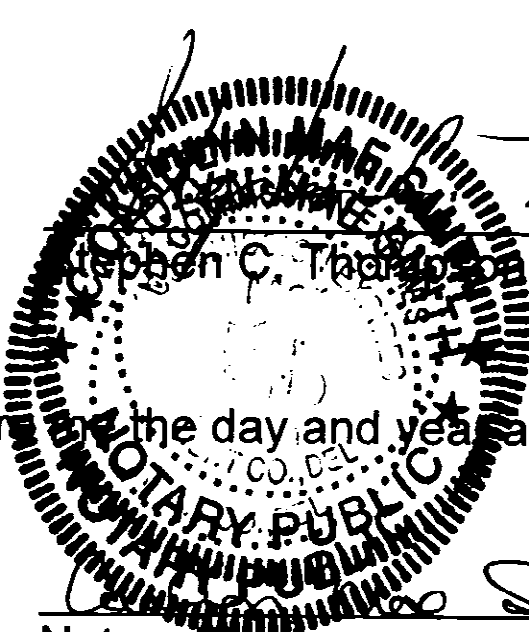
DATED: JULY 6, 2007

STATE OF DELAWARE)

COUNTY OF KENT)

BE IT REMEMBERED that on this 6th day of July 2007 personally appeared before me, a notary public for the State and County aforesaid, Stephen C. Thompson, who being by me duly sworn, did depose and say that he is Senior Vice President for Chesapeake Utilities Corporation, a Delaware corporation and insofar as the Application of Chesapeake Utilities Corporation states facts, said facts are true and correct, and insofar as those facts are not within his personal knowledge, he believes them to be true, and that the schedules accompanying this application and attached hereto are true and correct copies of the originals of the aforesaid schedules, and that he has executed this Application on behalf of the Company.

SWORN TO AND SUBSCRIBED before me the day and year above written.

 *Thompson*
Notary Public
My Commission Expires: 3/21/2010